



STATE OF DELAWARE
PUBLIC SERVICE COMMISSION
861 SILVER LAKE BLVD.
CANNON BUILDING, SUITE 100
DOVER, DELAWARE 19904
TELEPHONE: (302) 736-7500

MEMORADNUM

May 26, 2021

TO: The Chairman and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst

SUBJECT: IN THE MATTER OF THE APPLICATION OF ARTESIAN WATER COMPANY, INC. PURSUANT TO 26 DEL. C. § 215 FOR APPROVAL OF THE ISSUANCE OF A LONG-TERM DEBT OBLIGATION (FILED MAY 7, 2021) – PSC DOCKET NO. 21-0347

Application

On May 7, 2021, Artesian Water Company, Inc. (“Artesian” or the “Company”) filed an application (“Application”) with the Delaware Public Service Commission (the “Commission”) requesting approval for the issuance of one (1) long-term debt obligation in the principal amount of up to \$2,541,540 from the Delaware Drinking Water State Revolving Fund (the “SRF Loan”). In connection with the SRF Loan, Artesian will enter into a long-term debt obligation with the Delaware Drinking Water State Revolving Fund (acting by and through the Delaware Department of Health and Social Services) (the “Fund”) in order to subsidize and finance Artesian’s cost to acquire and upgrade the water assets for the Town of Frankford (“Town”).

Upon closing on the SRF Loan, Artesian will submit a draw request to the Fund in the amount of \$1,541,540. This is intended to partially offset Artesian’s cost to acquire the Town’s water system, with the remaining funds used to replace the Town’s aging and failing water mains. Upon receipt, the \$1,541,540 draw will be principally forgiven by the Fund. Thus, Artesian will not be obligated to pay principal and interest on its initial draw.

Upon completion of the Town’s water main renewal project, Artesian will submit a draw request to the Fund in the principal amount of \$1,000,000. A general obligation note will secure the loan request, on which Artesian will be obligated to pay the principal and interest. The SRF Loan will carry a fixed annual interest rate on 2.00% and will have a term not to exceed 20 years.

All costs associated with the acquisition of the Town's water system and the replacement of the Town's aging water mains, has been or will be financed using Artesian's short-term lines of credit. All proceeds from the SRF Loan will then be used to retire Artesian's short-term lines of credit.

Artesian expects to incur approximately \$40,000 in issuance costs related to the SRF Loan and has requested to defer these costs for review in its next rate case filing, along with its cost of capital calculations.

As part of the Application, Artesian included: a fully executed Commitment Letter from the Delaware Department of Natural Resources and Environmental Control on behalf of the Delaware Drinking Water State Revolving Fund; a copy of Artesian Resources Corporation's¹ Form 10-K for the fiscal year ended December 31, 2020; a copy of Artesian Resources Corporation's Form 10-Q for the period ended March 31, 2021; and Artesian's actual and proforma capitalization ratio's as of March 31, 2021.

Staff's Review

Staff reviewed the Application and supporting documents for compliance with 26 *Del. C.* § 215 and 26 *Del. Admin. C.* § 1002 – Part D. Per 26 *Del. Admin. C.* § 1002 – Part D, specifically § 3.1.9, Artesian must provide a copy of the Opinion of Counsel with respect to the legality of the proposed new issue. Artesian has stated in its Application that the Opinion of Counsel will be provided along with all related loan documents as they become available.

Staff also notes that Artesian's use of the Federal and Delaware Drinking Water State Revolving Fund programs lowers the costs to acquire the Town's water system, which benefits both Artesian and its customers.

Based on Staff's review, Artesian has satisfied all the requirements of 26 *Del. C.* § 215 and Part D of 26 *Del. Admin. C.* § 1002. Staff believes that the Application is in accordance with the law, for a proper purpose, and consistent with the public interest.

Staff's Recommendation

Based on Staff's review of the Application and supporting documents, Staff respectfully recommends that the Commission approve Artesian's Application for the reasons stated above subject to the following conditions: 1) Artesian may not construe this approval as a ratemaking treatment for future filings; and 2) within thirty days of closing, Artesian shall provide all closing documents pertaining to the SRF Loan along with the Opinion of Counsel. Staff further recommends that the Commission approve Artesian's request to defer the issuance costs of the SRF Loan along with the cost of capital calculations until its next rate case application.

¹ Artesian Resources Corporation is the parent company of Artesian Water Company.